



Emalahleni Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2018

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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### Legal form of entity

Local Municipality MP 312 Governed by MFMA

### Nature of business and principal activities

The main business of the municipality is to structure and manage the administration, budgeting and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community.  
The main types of services rendered by the municipality includes the provision of electricity and water , collection , purifying and disposal of waste water and the construction and maintenance of roads and provision of parks , sport and recreation facilities

### Mayoral committee

Executive Mayor

L M Malatjie

Speaker

M B Hlumbane

Chief Whip

C N Nkalitshana

Members of Mayoral committee

D M Skhosana - MMC Community services

BH Maseko - MMC Development planning

S J Matshipa - MMC Corporate services

C P Maseko- MMC Financial services

T T Mathebula - MMC Environmental and waste

M S Nkosi - MMC Technical services

MPAC Chairperson

P J Djiana

Councillors

M Bhamjee

A J J Brits

D C Chembe

N F E Coetzer

R E Cronje

P L Debeila

P J Djiana

M T Fakude

L B Goqo

V Hills

D H Grobler

T P Gulube

M S Jallal

M B Jiyane

R Kgomo

A B Khumalo

K N Khumalo

B T Lukhele

T G Mabula

M S Magagula

M J Makola

T D Malahle

M M Malaza

V J Manana

M Z Maseko

G B Masilela

T T Mathebula

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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M A Matemane  
P N Mazibuko  
L Mbekeni  
V J Nhlapho  
D E Mlaba  
M B Mahlangu  
Z B Mlangeni  
N L Mofokeng  
S L Mokoena  
P L Mokwena  
V L Motsoene  
L Mphego  
J J Msibi  
D N Mthimkulu  
Z V Z Mtshweni  
A S Mtsweni  
N Naidu  
S N Nombula  
B D Nkosi  
S L Nkosi  
B P Nukani  
M B Phahlane  
M H Phahlamohlaka  
J S Schneider-Breetzke  
T C Shabalala  
S B Shabangu  
M E Shongwe  
K Silaule  
L Steyn  
M A Tswaledi  
W A Van Dyk  
H J Venter  
M Venter  
P H Wilken  
S Zandamela  
J M Zondo

**Grading of local authority**

5

**Chief Finance Officer (CFO)**

P J Hlatshwayo

**Accounting Officer**

H S Mayisela

**Registered office**

Civic Centre  
Mandela Street  
Emalahleni  
1035

**Postal address**

P O Box 3  
Emalahleni  
1035

## **Emalahleni Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

### **General Information**

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<b>Bankers</b>	ABSA Bank Limited
<b>Auditors</b>	Auditor General of South Africa
<b>Central email contact details</b>	admin@emalahleni.gov.za
<b>Audit committee members</b>	
Audit committee chairperson	S A B Ngobeni P Mangoma B Mathibela N Msibi
<b>Country of incorporation</b>	South africa



# **Emalahleni Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Index**

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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# Emalahleni Local Municipality

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers ( Previously IMFO )
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
DOE	Department of Energy
MSCOA	Municipal Standard Chart Of Account
MSIG	Municipal Systems Improvement Grant
PPE	Property , plant and equipment
INCA	Infrastructure Finance Corporation Limited
UIF	Unemployment Insurance Fund
PAYE	Pay as you earn
COGTA	Co-operative Governance and Traditional Affairs
VAT	Value Added Tax
MPAC	Municipal Public Accounts Committee
CRC	Current Replacement Cost
MREP	Municipal Revenue Enhancement Program
NDPG	Neighbourhood Development Program Grant

## **Emalahleni Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

### **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on pages 10 to 78, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

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**H S Mayisela**  
**Accounting Officer**



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Audit Committee Report

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### 1. Audit committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from Section 166 of the Municipal Finance Management Act and Circular 65 issued by National Treasury. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, and it has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein, except that we have not reviewed changes in accounting policies and practices

### 2. Audit Committee members and attendance

The Audit Committee, consisting of independent outside members listed below, meets at least four times per annum as per its approved terms of reference, although additional special meetings may be called as the need arises.

#### 2.1

Member	Position	Attendance
SAB Ngobeni	AC Chairperson-	06 of 07
B Mathibela	AC member	05 of 07
B Mbewu (Resigned)	AC member	02 of 02
P Mangoma	AC member	05 of 07
N Msibi	AC member	05 of 07

### 3.

### 3. The Effectiveness of Internal Control

Our review of the internal control environment revealed that there has been a room for improvement in the system of internal control of the municipality and reducing qualification issues of previous year. Furthermore, there are several deficiencies in the system of internal control and/or deviations there were reported by the internal auditors and the Auditor-General. However, the Audit Committee notes management's commitment and action plan to correct deficiencies.

### 4. In- Year management and Monthly/Quarterly Report

The municipality does not have an effective monthly and quarterly reporting system to the Council as required by the Municipal Finance Management Act (MFMA). Furthermore, there is a room for improvement in so far as monitoring and reviews of financial and performance information on a periodically.

### 5. Performance management

The AC reviewed functionality of the performance management system and it appears to be functional, however there is a room for improvement in so far as achievement of planned targets is concerned and submission of portfolio of evidence timeously.

### 6. Risk Management

The AC is of the opinion that municipality's risk management appears to be effective for the better of the year and material respect, and the municipality did implement a comprehensive risk management strategy and related policies. Management has a sound and effective approach has been followed in developing strategic risk management plans and there is a sense of appreciation of the impact of the municipality's risk management framework on the control environment. However, there is a room for improvement in so far as fraud prevention.

# **Emalahleni Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Audit Committee Report**

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### **7. Compliance with laws and regulations**

A number of non-compliance with the enabling laws and regulations were revealed by Audit Committee, AGSA, and Internal Audit during the year. Thus there is a room for improvement in so far as establishing an effective system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.

### **8. Internal Audit**

The AC is satisfied with the effectiveness of Internal Audit, and commend Management and Council for capacitating this unit. The above conclusion is based on:

Timeous approval the internal audit charter, strategic and operational plans, internal audit activities, staffing (including competence and qualifications), and organisational structure of the Internal Audit Unit;

Satisfactorily implementation of the approved the annual internal audit plan and all major changes to the plan.

There were no unjustified restrictions or limitations on work of the internal audit.

Compliance with the IIA's international standards for the professional practice by Internal Auditing unit

Partial implementation of remedial action plan on internal audit findings by management.

### **9. External Audit**

The AC did review the Auditor-General's proposed audit scope and approach, including coordination of audit effort with internal audit in respect of 2016/17 financial year. Furthermore, the AC evaluated management responses to the reports or findings of the Auditor-General on quarterly basis.

#### **10. Progress in implementation of AGSA findings from prior year**

Not all AGSA recommendations were implemented by management at the time of this report. There is a room for improvement in this regard and the AC recommended to the municipality to prioritise the implementation of recommendations by AGSA

#### **11. Progress on implementations of Internal audit recommendations**

Not all internal audit recommendations were implemented by management satisfactorily. There is a room for improvement in this regard and thus, AC recommended to municipality to prioritise the implementation of recommendations by Internal Audit.

#### **12. Implementations of Audit Committee Recommendations by management**

Not all AGSA recommendations were implemented by management at the satisfactorily. There is a room for improvement in this regard and the AC recommended to the municipality to prioritise the implementation of recommendations by AGSA

### **13. Conclusion**

The Audit Committee wishes to acknowledge the commitment from Council, management and staff of the municipality. The stability in terms of the political and administrative leadership of the municipality has contributed to these improvements report above. We would also like to thank the Executive Mayor for his support, Councillors, senior management for their efforts and internal audit for their contributionAdditional text

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**Mr SAB Ngobeni**  
**Chairperson of the Audit Committee**



# **Emalahleni Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2018.

### **1. Review of activities**

#### **Main business and operations**

Net deficit of the municipality was R 386 612 868 (2017: Net deficit R 23 057 106).

### **2. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **3. Subsequent events**

There were no subsequent events that occurred during the financial year.

### **4. Accounting policies**

The accounting policies applied by the municipality are consistent to the ones previously applied in the financial years except to the ones disclosed in note 51 changes in accounting policies

The annual financial statements prepared in accordance with Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### **5. Reclassification**

During the financial year the accounting officer has reclassified certain amounts in the financial statements in order to achieve fair presentation and to comply with MSCOA.

### **6. Accounting Officer**

The accounting officer of the municipality during the year and to the date of this report is as follows:

H S Mayisela

### **7. Auditors**

Auditor General of South Africa will continue in office for the next financial period.

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	9	20 284 689	23 707 390
Receivables from other exchange transactions	10	29 141 313	13 590 960
Receivables from non-exchange transactions	11	23 159 644	23 817 354
VAT receivable	12	138 377 841	1 678 507
Consumer debtors	13	1 853 076 539	1 583 278 297
Cash and cash equivalents	14	12 404 659	4 929 222
		<b>2 076 444 685</b>	<b>1 651 001 730</b>
<b>Non-Current Assets</b>			
Biological assets	3	1 916 173	2 239 070
Investment property	4	1 077 952 547	1 079 763 642
Property, plant and equipment	5	5 589 262 745	5 572 481 922
Intangible assets	6	3 860 313	5 237 802
Heritage assets	7	400 000	400 000
Other financial assets	8	5 107 174	7 936 334
		<b>6 678 498 952</b>	<b>6 668 058 770</b>
<b>Total Assets</b>		<b>8 754 943 637</b>	<b>8 319 060 500</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Loans	17	22 584 002	28 476 056
Finance lease obligation	15	1 575 714	1 575 714
Payables from exchange transactions	19	3 083 358 861	2 426 104 574
Consumer deposits	20	121 362 930	120 630 167
Unspent conditional grants and receipts	16	2 897 744	13 701 939
Provisions	18	62 053 483	52 322 491
		<b>3 293 832 734</b>	<b>2 642 810 941</b>
<b>Non-Current Liabilities</b>			
Loans	17	62 430 764	85 490 668
Finance lease obligation	15	7 944	1 757 817
Provisions	18	401 851 364	232 577 698
		<b>464 290 072</b>	<b>319 826 183</b>
<b>Total Liabilities</b>		<b>3 758 122 806</b>	<b>2 962 637 124</b>
<b>Net Assets</b>		<b>4 996 820 831</b>	<b>5 356 423 376</b>
Accumulated surplus		4 996 820 829	5 356 423 377

Audited  
By  
2018-12-21  
Auditor General South Africa  
Mpumalanga Business Unit

\* See Note 51

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	1 520 262 984	1 430 771 772
Rental of facilities and equipment	23	10 050 229	12 219 669
Licences and permits	25	2 419 142	2 784 274
Commissions received	26	32 888 562	31 546 198
Sundry income	27	28 200 019	21 716 024
Fees earned	28	651 978	827 587
Interest revenue	29	226 564 194	130 052 695
Fair value adjustments	44	-	275 675
Actuarial gains	43	16 021 000	232 000
Dividends received	29	42 919	126 926
<b>Total revenue from exchange transactions</b>		<b>1 837 101 027</b>	<b>1 630 552 820</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	30	458 423 084	391 919 607
<b>Transfer revenue</b>			
Government grants & subsidies	32	473 783 200	397 467 251
Public contributions and donations	33	11 488 253	26 911 000
Fines		20 200 058	23 763 729
<b>Total revenue from non-exchange transactions</b>		<b>963 894 595</b>	<b>840 061 587</b>
<b>Total revenue</b>	21	<b>2 800 995 622</b>	<b>2 470 614 407</b>
<b>Expenditure</b>			
Employee related costs	34	(800 249 027)	(691 942 859)
Remuneration of councillors	35	(26 925 001)	(25 327 081)
Depreciation and amortisation	36	(279 591 866)	(280 209 161)
Impairment loss	37	(17 064 961)	(10 920 360)
Finance costs	38	(129 855 319)	(96 881 514)
Lease rentals on operating lease	24	(21 432 316)	(11 485 559)
Debt Impairment	39	(531 787 567)	(91 144 184)
Bulk purchases	40	(917 747 340)	(900 533 772)
Contracted services	41	(235 046 274)	(211 198 307)
Grants and subsidies	31	(21 153 962)	(10 760 426)
Loss on disposal of assets	5	(30 381 730)	-
Fair value adjustments	44	(465 241)	-
General Expenses	42	(175 907 886)	(163 268 290)
<b>Total expenditure</b>		<b>(3 187 608 490)</b>	<b>(2 493 671 513)</b>
<b>Deficit for the year</b>		<b>(386 612 868)</b>	<b>(23 057 106)</b>

\* See Note 51



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	4 938 943 110	4 938 943 110
Adjustments		
Change in accounting policy *(Note 51)	487 012 191	487 012 191
<b>Balance at 01 July 2016 as restated*</b>	<b>5 425 955 301</b>	<b>5 425 955 301</b>
Changes in net assets		
Deficit for the year	(23 057 106)	(23 057 106)
Assets Property Plant and Equipments,inventory and debtors *( Note 51)	(46 474 819)	(46 474 819)
<b>Restated* Balance at 01 July 2017</b>	<b>5 356 423 376</b>	<b>5 356 423 376</b>
Changes in net assets		
Deficit for the year	(386 612 868)	(386 612 868)
		-
<b>Balance at 30 June 2018</b>	<b>4 969 810 508</b>	<b>4 969 810 508</b>



\* See Note 51

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Taxation		13 468 242	19 142 459
Sale of goods and services		2 488 795 484	2 558 142 018
Grants		473 783 200	411 159 386
Interest income		274 095	1 259 065
Dividends received		42 919	126 926
		<u>2 976 363 940</u>	<u>2 989 829 854</u>
<b>Payments</b>			
Employee costs		(805 752 028)	(717 269 940)
Suppliers		(1 597 855 017)	(1 718 890 288)
Finance costs		(129 855 319)	(96 881 514)
		<u>(2 533 462 364)</u>	<u>(2 533 041 742)</u>
<b>Net cash flows from operating activities</b>		<b>442 901 576</b>	<b>456 788 112</b>
<b>Cash flows from investing activities</b>			
Purchase of Property Plant and equipments		(394 994 716)	(429 730 839)
<b>Cash flows from financing activities</b>			
Loan Repayments		(39 024 278)	(24 052 466)
Finance lease movements		(2 193 900)	(1 633 960)
Consumer deposits		732 763	4 138 055
<b>Net cash flows from financing activities</b>		<b>(40 431 424)</b>	<b>(21 548 371)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7 475 437</b>	<b>5 508 901</b>
Cash and cash equivalents at the beginning of the year		4 929 222	(579 679)
<b>Cash and cash equivalents at the end of the year</b>		<b>12 404 659</b>	<b>4 929 222</b>

Audited  
By  
2018-12-21  
Auditor General South Africa  
Tax and Audit Unit

\* See Note 51



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note 52
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1 998 808 379	(72 248 239)	1 926 560 140	1 520 262 984	(406 297 156)	21%
Rental of facilities and equipment	12 326 078	9 718 826	22 044 904	10 050 229	(11 994 675)	54.1%
Licences and permits	205 849	(15 456)	190 393	2 419 142	2 228 749	1170%
Commissions received	11 892 786	(622 903)	11 269 883	32 888 562	21 618 679	191%
Other income	39 792 980	(23 198 829)	16 594 151	28 851 997	12 257 846	73%
Interest received	92 815 681	81 156 127	173 971 808	226 564 194	52 592 386	30%
Actual gains	-	-	-	16 021 000	16 021 000	100%
Dividends received	-	-	-	42 919	42 919	100%
<b>Total revenue from exchange transactions</b>	<b>2 155 841 753</b>	<b>(5 210 474)</b>	<b>2 150 631 279</b>	<b>1 837 101 027</b>	<b>(313 530 252)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	450 427 595	1 547 716	451 975 311	458 423 084	6 447 773	1%
<b>Transfer revenue</b>						
Government grants & subsidies	490 333 338	(15 500 000)	474 833 338	473 783 200	(1 050 138)	0%
Public contributions and donations	40 975 757	-	40 975 757	11 488 253	(29 487 504)	71%
Fines, Penalties and Forfeits	6 597 943	(1 784 427)	4 813 516	20 200 058	15 386 542	319%
<b>Total revenue from non-exchange transactions</b>	<b>988 334 633</b>	<b>(15 736 711)</b>	<b>972 597 922</b>	<b>963 894 595</b>	<b>(8 703 327)</b>	
<b>Total revenue</b>	<b>3 144 176 386</b>	<b>(20 947 185)</b>	<b>3 123 229 201</b>	<b>2 800 995 622</b>	<b>(322 233 579)</b>	
<b>Expenditure</b>						
Employee related costs	(749 152 832)	-	(749 152 832)	(800 249 027)	(51 096 195)	6%
Remuneration of councillors	(29 675 293)	-	(29 675 293)	(26 925 001)	2 750 292	9%
Depreciation and amortisation	(263 000 001)	-	(263 000 001)	(279 591 866)	(16 591 865)	6%
Impairment loss/ Reversal of impairments	-	-	-	(17 064 961)	(17 064 961)	100%
Finance costs	(82 528 753)	-	(82 528 753)	(129 855 319)	(47 326 566)	57%
Lease rentals on operating lease	-	-	-	(21 432 316)	(21 432 316)	100%
Debt Impairment	(480 964 484)	31 500 000	(449 464 484)	(531 787 567)	(82 323 083)	18%
Bulk purchases	(968 817 368)	-	(968 817 368)	(917 747 340)	51 070 028	5%
Contracted Services	(189 556 663)	(18 868 892)	(208 425 555)	(235 046 274)	(26 620 719)	12%
Transfers and Subsidies	(37 283 654)	-	(37 283 654)	(21 153 962)	16 129 692	43%
General Expenses	(276 055 678)	1 348 631	(274 707 047)	(175 907 886)	98 799 161	35%
<b>Total expenditure</b>	<b>(3 077 034 726)</b>	<b>13 979 739</b>	<b>(3 063 054 987)</b>	<b>(3 156 761 519)</b>	<b>(93 706 532)</b>	
<b>Operating deficit</b>	<b>67 141 660</b>	<b>(6 967 446)</b>	<b>60 174 214</b>	<b>(355 765 897)</b>	<b>(415 940 111)</b>	
Loss on disposal of assets and liabilities	-	-	-	(30 381 730)	(30 381 730)	
Fair value adjustments	-	-	-	(465 241)	(465 241)	100%
	-	-	-	(30 846 971)	(30 846 971)	
<b>Deficit before taxation</b>	<b>67 141 660</b>	<b>(6 967 446)</b>	<b>60 174 214</b>	<b>(386 612 868)</b>	<b>(446 787 082)</b>	

## Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note 52
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	67 141 660	(6 967 446)	60 174 214	(386 612 868)	(446 787 082)	
Reconciliation						





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand, which is the functional currency of the Municipality.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. All amounts have been rounded off to the nearest rand.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgments include:

##### Trade receivables

The municipality assesses its held to maturity investments for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

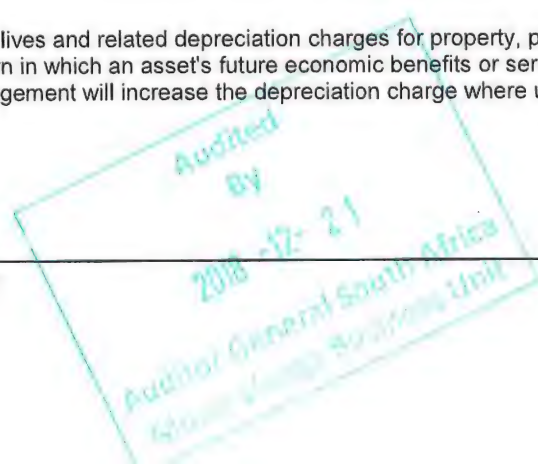
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows or service potential used to determine the value-in-use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates and service potential, together with economic factors such as exchange rates, inflation and interest.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

##### Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the Municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note .

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

#### Allowance for doubtful debts

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Land held for a currently undetermined future use, land is held for currently undetermined future use when: entity has not determined that it will use that land as owner - occupied property

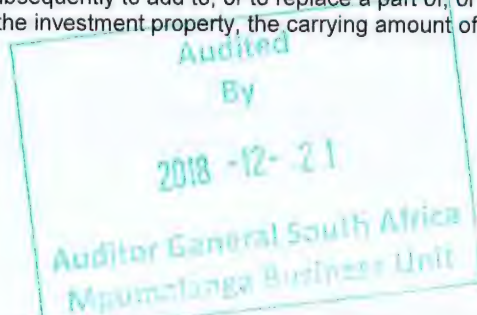
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Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.3 Investment property (continued)

#### Subsequent measurement

Subsequent to initial measurement investment property is measured using the cost model. The investment property is measured at cost less accumulated depreciation and accumulated impairment losses. The investment property is depreciated over a period of 10-50 years.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The nature OR type of properties classified as held for strategic purposes are as follows:

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

### 1.4 Property, plant and equipment (continued)

Item	Average useful life
<b>Infrastructure</b>	
• Roads and paving	3-80 years
• Pedestrian malls	3-80 years
• Electricity	3-80 years
• Water	5-100 years
• Sewerage	10-60 years
<b>Community assets</b>	
• Buildings	5-80 years
• Recreational Facilities	5-80 years
• Security	5-80 years
• Halls	5-80 years
• Libraries	5-80 years
• Parks and gardens	5-80 years
<b>Finance leased assets</b>	
• Office equipment	3-15 years
<b>Heritage assets</b>	
• Buildings	
• Paintings and artifacts	
<b>Other assets</b>	
• Specialist vehicles	4-20 years
• Motor cycles	3-20 years
• Trucks / Bakkies	4-20 years
• Busses	4-15 years
• Fire engines	4-20 years
• Computer hardware & Software	3-10 years
• Office machines	3-15 years
• Air conditioners	3-15 years
• Furniture and fittings	3-15 years
• Household refuse bins	5-15 years
• Bulk containers	5-15 years
• Landfill sites	10-55 years
• Quarries	10-55 years
• Emergency equipment	5-10 years
• Airport / Radio Beacons	10-30 years
• Security systems / Access control	3-5 years
• Fencing	3-5 years

### 1.5 Property, plant and equipment

In the 2017/18 financial year the Municipality accounts for Game as other property, plant and equipment in accordance with GRAP 17. This game does not meet the definition of inventory as it is not sold or used in the ordinary course of operations nor is this the agricultural produce at the point of harvest. The activities undertaken are recreational purposes i.e. Biological assets are on nature reserves, and are not agricultural activities for purposes of GRAP 27. The auction price has been used in the determination of the market value.

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

### 1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Average useful life
Computer software, internally generated	3 years
Computer software, other	3 years

21

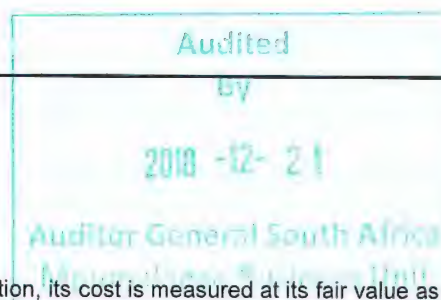
Auditor General South Africa  
Municipal and Local Government Division



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies



### 1.8 Heritage assets

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from a municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by a municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Investments	Financial asset measured at amortised cost
Consumable debtors	Financial asset measured at amortised cost
Receivable from exchange transactions	Financial asset measured at amortised cost
Receivable from non-exchange transactions	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumable deposits	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Finance leases	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost

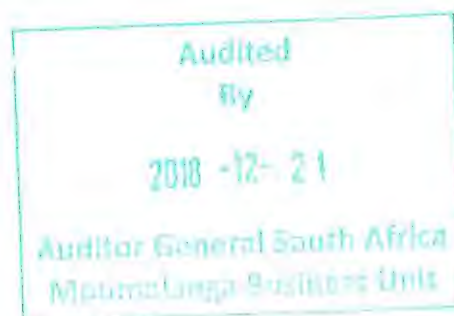
#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

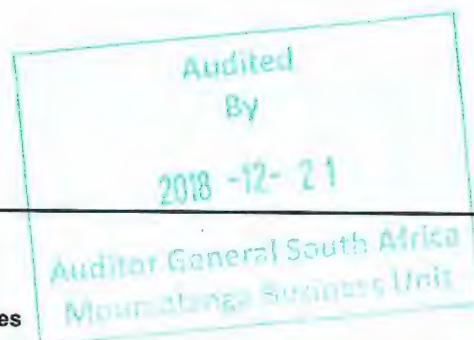




# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies



### 1.9 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

### 1.9 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

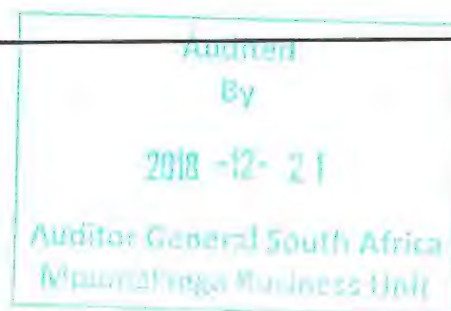
On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

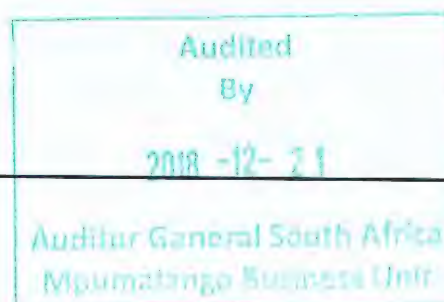
The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies



### 1.9 Financial instruments (continued)

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

### 1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

### 1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

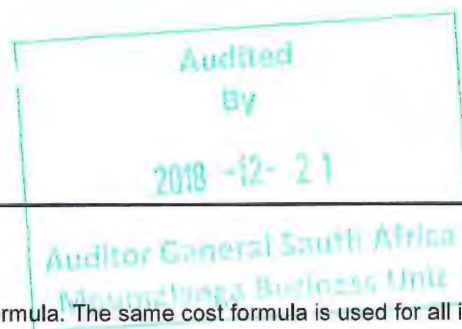
The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies



### 1.11 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

### 1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.13 Impairment of cash-generating assets (continued)

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.13 Impairment of cash-generating assets (continued)

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

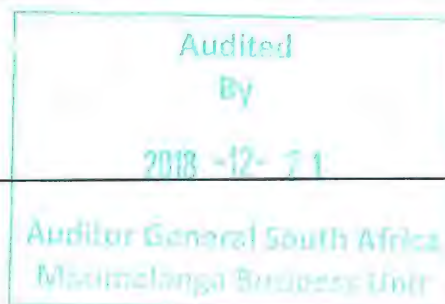
An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

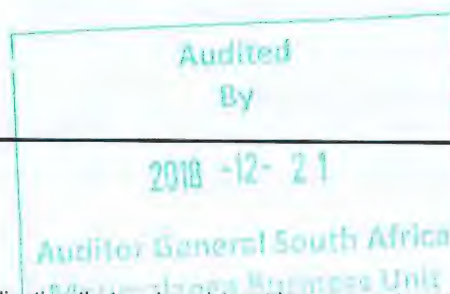




# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies



### 1.13 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.14 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting Municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from a municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

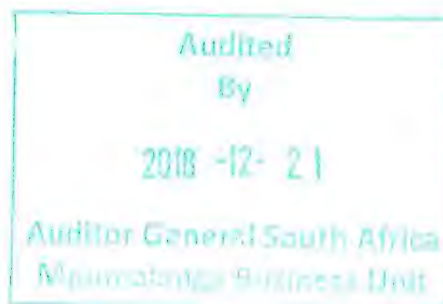
The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

### 1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

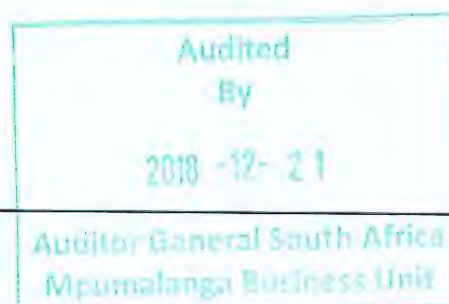
Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficit.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 48.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

### 1.15 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and .

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

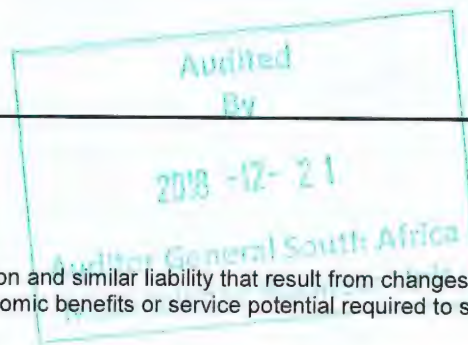
#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

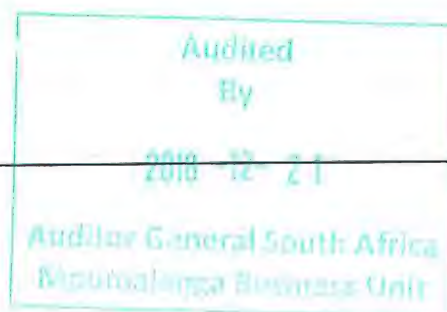
Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

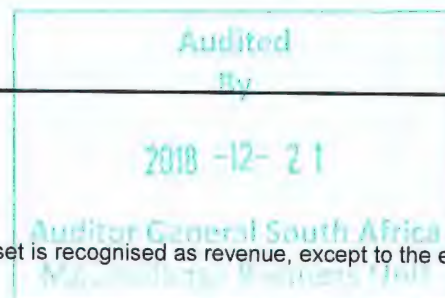




# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies



### 1.17 Revenue from non-exchange transactions (continued)

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### 1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.20 Unauthorised expenditure

Unauthorised expenditure means:

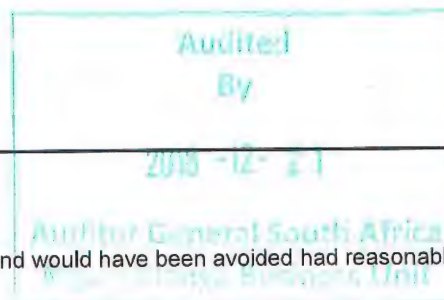
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies



### 1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No.20 of 1998), or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

### 1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The budget for the municipality entity includes all the municipalities approved budgets under its control.

The Municipality considers any variance amount above the inflation of 10%. Explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.25 Budget information (continued)

Comparative information is not required.

### 1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

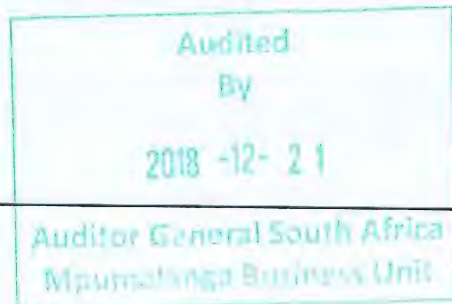
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.28 Value-added tax

The Municipality accounts for value-added tax on an accrual basis. However the VAT paid / due to/by SARS is accounted for on a cash basis.



# Emalahleni Local Municipality

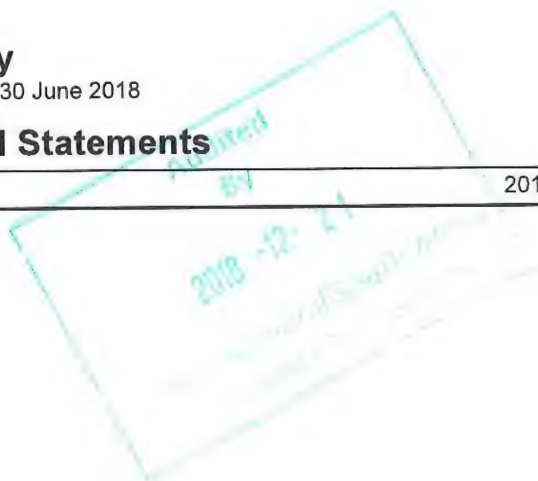
Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

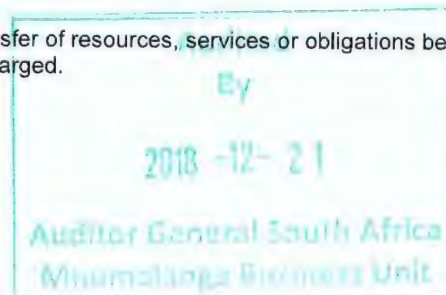
The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;



## Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

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#### 2. New standards and interpretations (continued)

- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality has early adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is set out in note Changes in Accounting Policy.

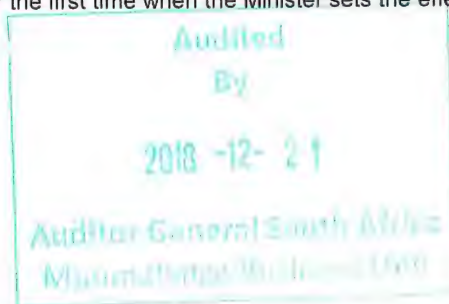
#### GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 3. Biological assets

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game in nature reserve	1 916 173	-	1 916 173	2 239 070	-	2 239 070

#### Reconciliation of other property, plant and equipment - game - 2018

	Opening balance	Fair value adjustments	Total
Game in nature reserve	2 239 070	(322 897)	1 916 173

#### Reconciliation of other property, plant and equipment- Game- 2017

	Opening balance	Fair value adjustments	Total
Game in nature reserve	1 963 395	275 675	2 239 070



# Emalahleni Local Municipality

## Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

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#### 4. Investment property

	Cost / Valuation	2018 Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	2017 Accumulated depreciation and accumulated impairment	Carrying value
Land	1 050 024 274	-	1 050 024 274	050 024 274	-	1 050 024 274
Buildings	71 791 696	(43 863 423)	27 928 273	77 642 143	(47 902 775)	29 739 368
Total	1 121 815 970	(43 863 423)	1 077 952 547	127 666 417	(47 902 775)	1 079 763 642
	<b>1 121 815 970</b>	<b>(43 863 423)</b>	<b>1 077 952 547</b>	<b>127 666 417</b>	<b>(47 902 775)</b>	<b>1 079 763 642</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Reconciliation of investment property - 2018

	Opening balance	Disposals	Adjustment to Accumulated depreciation	Impairment	Depreciation	Closing balance
Land	1 050 024 274	-	-	-	-	1 050 024 274
Buildings	29 739 369	(13 875)	-	(48 027)	(1 749 195)	27 928 272
Total	1 079 763 643	(13 875)	-	(48 027)	(1 749 195)	1 077 952 546
	<b>1 079 763 643</b>	<b>(13 875)</b>	<b>-</b>	<b>(48 027)</b>	<b>(1 749 195)</b>	<b>1 077 952 546</b>

Audited  
 By  
 2018-12-21  
 Auditor-General South Africa  
 Member of the Public Service Unit



## Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

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#### 4. Investment property (continued)

##### Reconciliation of investment property - 2017

	Opening balance	Disposals	Depreciation	Closing balance
Land	1 050 024 274	-	-	1 050 024 274
Buildings	31 488 564	-	(1 749 195)	29 739 369
Total	1 081 512 838	-	(1 749 195)	1 079 763 643
	<b>1 081 512 838</b>	<b>-</b>	<b>(1 749 195)</b>	<b>1 079 763 643</b>



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Property, plant and equipment

	2018		2017	
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation
Land	453 198 160	-	453 198 160	453 198 160
Buildings	1 363 056 707	(757 547 853)	605 508 854	1 354 386 718
Furniture and fixtures	42 510 814	(29 472 803)	13 038 011	40 882 192
Motor vehicles	100 257 423	(77 629 671)	22 627 752	96 895 081
Water	2 036 584 104	(946 577 779)	1 090 006 325	1 980 435 602
Other property, plant and equipment	34 487 062	(32 922 396)	1 564 666	34 850 366
Sewerage main and purification	1 772 382 860	(859 063 733)	913 319 127	1 765 966 913
Roads	3 255 815 343	(1 893 277 230)	1 362 538 113	3 226 156 901
Emergency equipment	218 996	(175 032)	43 964	218 996
Electricity mains	1 799 704 729	(825 158 086)	974 546 643	1 771 778 954
Leased assets	5 682 890	(3 575 945)	2 106 945	8 057 965
Tip sites	151 662 958	(2 230 199)	149 432 759	10 177 425
Library books	2 365 511	(1 034 085)	1 331 426	2 365 511
<b>Total</b>	<b>11 017 927 557</b>	<b>(5 428 664 812)</b>	<b>5 589 262 745</b>	<b>10 745 370 784</b>
			<b>(5 172 888 862)</b>	<b>5 572 481 922</b>

Audited  
By  
2018-12-21  
Auditor-General South Africa  
Mogaele M. Mphahlele



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 5. Property, plant and equipment (continued)

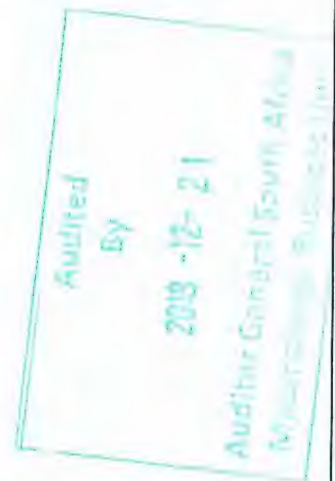
#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Work in progress transfers	Work in progress additions	Disposals	Prior period adjustment to cost	Depreciation	Impairment loss	Impairment reversal	Total
Land	453 198 160									453 198 160
Buildings	649 223 198	13 792 686	(16 156 201)	4 812 540	(1 292 861)		(35 407 368)	(15 138 108)		605 509 060
Furniture and fixtures	12 932 796	3 320 778				73 559	(1 305 930)	(35 949)		13 038 011
Motor vehicles	24 387 129	8 984 638					(10 196 228)	(547 787)		22 627 752
Water	1 041 835 497	5 190 952		29 270 636	(3 593 650)		(42 910 408)	(40 453)		1 029 752 574
Other property, plant and equipment	2 401 114	769 233				7 233	(1 325 172)		(287 742)	1 564 666
Sewerage main and purification	968 825 846	36 760 668	(34 783 606)	34 278 441	(735 275)		(30 728 714)	(44 482)		973 572 878
Roads	1 429 125 395	30 183 813	(20 434 295)	43 401 390	(11 930 802)		(106 303 277)	(1 504 111)		1 362 538 107
Emergency equipment	93 296						(49 332)			43 964
Electricity mains	977 109 530	5 581 952		48 228 223	(12 815 267)		(42 636 690)	(921 105)		974 546 643
Leased assets	3 699 935	347 845					(1 940 835)			2 106 945
Tip sites	8 222 732	139 385 049		2 096 361			(271 583)			149 432 759
Library books	1 427 295						(95 869)			1 331 426
	<b>5 572 481 923</b>	<b>244 317 614</b>	<b>(71 374 102)</b>	<b>162 087 591</b>	<b>(30 367 855)</b>	<b>80 792</b>	<b>(273 171 406)</b>	<b>(18 231 995)</b>	<b>(287 742)</b>	<b>5 589 262 745</b>

In the 2018 financial year buildings projects amounting to R 16 156 200 were completed and transferred from WIP to the specific classes. The following are the affected classes :

Buildings

Water and sanitation R 2 363 514.00



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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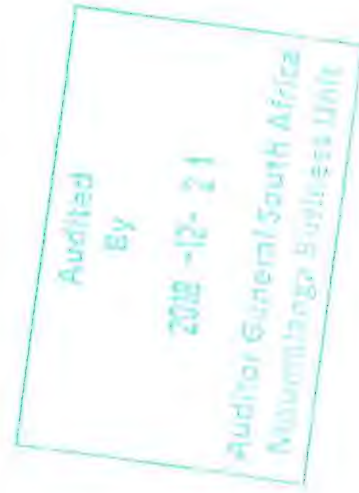
### 5. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Work in progress transfers	Work in progress additions	Disposals	prior period adjustment to Accumulated depreciation	Depreciation	Impairment loss	Total
Land	453 198 160								453 198 160
Buildings	660 551 851	16 972 127	(13 210 086)	24 026 620	(4 829 017)	1 598 922	(34 552 219)	(1 335 000)	649 223 198
Furniture and fixtures	6 380 471	9 397 028	-	-	(19 513)	-	(2 796 486)	(28 704)	12 932 796
Motor vehicles	31 820 390	2 402 516	-	-	-	-	(9 792 251)	(43 526)	24 387 129
Water	1 069 034 962	4 333 669	(2 661 475)	15 595 066	(2 459 980)	1 279 913	(42 866 614)	(420 044)	1 041 835 497
Other property, plant and equipment	4 856 569	208 690	-	-	-	-	(2 664 145)	-	2 401 114
Sewerage main and purification	967 336 046	18 972 289	(18 972 290)	35 030 264	(1 314 174)	672 133	(30 775 124)	(2 123 298)	968 825 846
Roads	1 509 195 275	3 872 492	(3 857 491)	27 898 445	(735 397)	570 691	(107 781 162)	(37 458)	1 429 125 395
Emergency equipment	139 943	-	-	-	-	-	(46 647)	-	93 296
Electricity mains	985 258 975	4 885 499	(10 319 733)	41 706 007	(1 420 172)	666 659	(42 706 847)	(960 858)	977 109 530
Leased assets	5 644 646	1 681 100	-	-	-	-	(3 625 811)	-	3 699 935
Tip sites	5 945 393	-	-	2 547 558	-	-	(267 545)	(2 674)	8 222 732
Library books	1 523 243	-	-	-	-	-	(95 948)	-	1 427 295
	<b>5 700 885 924</b>	<b>62 725 410</b>	<b>(49 021 075)</b>	<b>146 803 960</b>	<b>(10 778 253)</b>	<b>4 788 318</b>	<b>(277 970 799)</b>	<b>(4 951 562)</b>	<b>5 572 481 923</b>

#### Pledged as security

No PPE was pledged as security





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 5. Property, plant and equipment (continued)

#### Other information

During the 2017/18 physical assets verification, the assets listed below could not be found on the floor management took a decision to dispose these assets and they are still waiting for a council resolution to dispose such assets.

#### Property, plant and equipment disposed

Buildings	1 292 861
Electricity	12 815 267
Roads and stormwater	11 930 802
Sanitation	735 275
Water	3 593 649
Investment property	13 876
	<b>30 381 730</b>

#### Reconciliation of Work-in-Progress 2018

	Opening balance	Additions	Transfers	Total
Buildings	15 388 391	4 812 533	(16 156 201)	4 044 723
Electricity	75 516 089	48 228 223	-	123 744 312
Roads and stormwater	24 885 116	43 401 390	(20 434 295)	47 852 211
Tip sites	2 547 558	2 096 361	-	4 643 919
Sanitation	143 270 645	34 278 441	(34 783 606)	142 765 480
Water	13 376 509	29 270 636	-	42 647 145
	<b>274 984 308</b>	<b>162 087 584</b>	<b>(71 374 102)</b>	<b>365 697 790</b>

#### Reconciliation of Work-in-Progress 2017

	Opening balance	Additions	Transfers	Closing balance
Buildings	4 571 857	24 026 620	(13 210 086)	15 388 391
Electricity	44 129 815	41 706 007	(10 319 733)	75 516 089
Roads and stormwater	844 163	27 898 445	(3 857 491)	24 885 117
Tip sites	-	2 547 558	-	2 547 558
Sanitation	127 212 671	35 030 264	(18 972 290)	143 270 645
Water	442 918	15 595 066	(2 661 475)	13 376 509
	<b>177 201 424</b>	<b>146 803 960</b>	<b>(49 021 075)</b>	<b>274 984 309</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 6. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	8 339 343	(4 479 030)	3 860 313	8 339 342	(3 101 540)	5 237 802

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 6. Intangible assets (continued)

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	5 237 802	(1 377 489)	3 860 313

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	1 571 772	4 552 562	(886 532)	5 237 802

### 7. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Sculptures	400 000	-	400 000	400 000	-	400 000

#### Reconciliation of heritage assets - 2018

	Opening balance	Total
Sculptures	400 000	400 000

#### Reconciliation of heritage assets - 2017

	Opening balance	Total
Sculptures	400 000	400 000

### 8. Other financial assets

#### At amortised cost

Listed Shares - Old Mutual	1 153 476	1 331 279
Listed Shares - Sanlam	-	2 651 357
Long Term Deposits - New Republic Bank	3 953 698	3 953 698
	<b>5 107 174</b>	<b>7 936 334</b>

#### Non-current assets

At amortised cost	5 107 174	7 936 334
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### 9. Inventories

Consumable stores	18 958 625	22 080 311
Water stock	615 861	615 862
Face Value document	11 884	27 462
Purification material	698 319	983 755
	<b>20 284 689</b>	<b>23 707 390</b>

Audited By  
2018-12-21  
Auditor General South Africa  
Mphahlele



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 10. Receivables from other exchange transactions

Other receivables	16 302 706	752 353
Funeral Expenses - employees and councillors	75 450	75 450
Councillors UIF for prior year	763 157	763 157
New Water Pre payment	12 000 000	12 000 000
	<b>29 141 313</b>	<b>13 590 960</b>

### 11. Receivables from non-exchange transactions

Traffic fines	12 423 071	12 542 326
Housing/ervens loans	6 844 660	10 903 160
Recoverable projects	3 860 541	340 496
Damage to Minisub NO021 Phola Zone 5	31 372	31 372
	<b>23 159 644</b>	<b>23 817 354</b>

#### HOUSING/ERVEN DEBTORS

When Council sells land to the public, a 60 day period is given for applying for a bond and registration thereof. by failing to do so, the transaction is cancelled.

### 12. VAT receivable

VAT	138 377 841	1 678 507
-----	-------------	-----------

The Municipality pays VAT over to SARS using the cash basis. However the annual financial statements are prepared using the accrual basis of accounting. Hence the difference between the net VAT due to the municipality as reflected on the VAT 201 returns and the net VAT payable disclosed on the financial statements. All VAT returns have been submitted by the due date throughout the year.

### 13. Consumer debtors

#### Gross balances

Rates	768 479 314	326 856 703
Electricity	839 196 412	589 912 483
Water	1 100 488 007	868 375 811
Sewerage	292 198 032	317 898 213
Refuse	378 641 681	205 402 982
Other (specify)	36 085 721	206 623 038
	<b>3 415 089 167</b>	<b>2 515 069 230</b>

#### Less: Allowance for impairment

Rates	(506 187 931)	(158 737 970)
Electricity	(337 509 050)	(236 212 901)
Water	(488 074 360)	(335 513 890)
Sewerage	(132 685 304)	(72 395 794)
Refuse	(78 238 380)	(45 430 392)
Other (specify)	(19 317 603)	(83 499 986)
	<b>(1 562 012 628)</b>	<b>(931 790 933)</b>

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 13. Consumer debtors (continued)

#### Net balance

Rates	262 291 383	168 118 733
Electricity	501 687 362	353 699 582
Water	612 413 647	532 861 921
Sewerage	159 512 728	245 502 419
Refuse	300 403 301	159 972 590
Other (specify)	16 768 118	123 123 052

**1 853 076 539      1 583 278 297**

#### Included in above is receivables from exchange transactions

Electricity	474 419 814	353 699 582
Water	572 981 842	532 861 921
Sewerage	148 793 007	245 502 419
Refuse	294 082 378	159 972 590

**1 490 277 041      1 292 036 512**

#### Included in above is receivables from non-exchange transactions (taxes and transfers)

Rates	221 396 174	168 118 733
Other (specify)	141 403 324	123 123 052

**362 799 498      291 241 785**

#### Net balance

**1 853 076 539      1 583 278 297**

#### Rates

Current (0 -30 days)	1 183 129	9 084 290
31 - 60 days	25 600 070	6 515 663
61 - 90 days	18 042 829	5 255 525
91 - 120 days	18 986 118	4 826 330
121 - 365 days	85 642 649	33 129 720
> 365 days	112 836 588	109 307 205

**262 291 383      168 118 733**

#### Electricity

Current (0 -30 days)	341 201	22 212 334
31 - 60 days	24 842 680	15 244 452
61 - 90 days	26 060 324	11 106 167
91 - 120 days	54 126 921	10 328 028
121 - 365 days	115 415 272	70 350 847
> 365 days	280 900 964	224 457 754

**501 687 362      353 699 582**

#### Water

Current (0 -30 days)	1 424 835	7 673 212
31 - 60 days	27 726 752	15 293 137
61 - 90 days	24 147 447	14 547 130
91 - 120 days	26 643 376	12 149 252
121 - 365 days	155 460 955	95 755 287
> 365 days	377 010 282	387 443 903

**612 413 647      532 861 921**





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 13. Consumer debtors (continued)

#### Sewerage

Current (0 -30 days)	108 486	3 756 187
31 - 60 days	7 898 791	7 291 422
61 - 90 days	8 285 944	6 947 718
91 - 120 days	17 209 788	5 990 259
121 - 365 days	36 696 569	46 940 062
> 365 days	89 313 150	174 576 771
	<b>159 512 728</b>	<b>245 502 419</b>

#### Refuse

Current (0 -30 days)	1 093 132	2 175 627
31 - 60 days	13 665 172	4 127 293
61 - 90 days	9 890 979	3 983 317
91 - 120 days	7 937 401	3 519 397
121 - 365 days	81 494 881	24 763 757
> 365 days	186 321 736	121 403 199
	<b>300 403 301</b>	<b>159 972 590</b>

#### Other (specify)

Current (0 -30 days)	(157 103)	3 139 638
31 - 60 days	160 163	1 600 600
61 - 90 days	110 665	2 314 713
91 - 120 days	193 666	1 317 417
121 - 365 days	1 476 123	20 930 919
> 365 days	14 984 604	93 819 765
	<b>16 768 118</b>	<b>123 123 052</b>

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(931 790 933)	(1 498 646 665)
Contributions to allowance	(531 787 567)	(385 117 236)
Debt impairment written off against allowance	(98 434 128)	79 843 541
Reversal of allowance (Note 51)	-	872 129 427
	<b>(1 562 012 628)</b>	<b>(931 790 933)</b>

### 14. Cash and cash equivalents

Cash and cash equivalents consist of:

Collateral Investments	329 173	201 706
Bank balances	11 569 538	4 536 850
Market Account	504 376	200 369
Call Account	1 572	(9 703)
	<b>12 404 659</b>	<b>4 929 222</b>



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 14. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
ABSA BANK -Main account - 1360-000-091	7 562 635	5 933 832	5 502 617	11 255 656	4 245 164	(2 668 445)
ABSA BANK - Licencing -4080-890-928	2 304 293	1 401 048	1 455 545	625 812	625 812	1 453 911
ABSA BANK - Nics - 4080-890-952	-	-	54 049	-	-	54 049
ABSA BANK - Traffic fines - 4080-890-910	30 825	28 629	21 224	(365 507)	(365 507)	21 223
ABSA BANK - Market account - 1360-000-067	504 376	200 369	344 080	504 376	200 369	344 080
ABSA BANK - MIG call account - 4080-885-959	647	(5 450)	538	638	(5 450)	528
ABSA BANK - DOE call account - 4080-886-078	933	(4 994)	806	933	(4 994)	806
ABSA BANK -Cheque account - 4081-372-218	-	750	126	127 466	750	-
NEDBANK BANK - Collateral Account	-	157 548	145 771	157 549	157 548	145 771
FNB Collateral	-	-	-	44 158	44 158	41 015
Petty cash	-	-	-	53 578	31 372	27 383
<b>Total</b>	<b>10 403 709</b>	<b>7 711 732</b>	<b>7 524 756</b>	<b>12 404 659</b>	<b>4 929 222</b>	<b>(579 679)</b>

### 15. Finance lease obligation

#### Present value of minimum lease payments due

- within one year
- in second to fifth year inclusive

355 428	1 575 714
1 575 714	1 757 817
<b>1 931 142</b>	<b>3 333 531</b>

Non-current liabilities  
Current liabilities

7 944	1 757 817
1 575 714	1 575 714
<b>1 583 658</b>	<b>3 333 531</b>

The Municipality enters into finance lease arrangements with the ABD Financial Services (Pty) Ltd. The Municipality leases it photo copier machines. The average lease term is 3 years and the average effective borrowing rate is 7% for all new leases entered into. (2017: 9%). Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

### 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Revenue Enhancement Program  
Human Settlement Grant  
NDPG

9 804	9 804
2 835 689	13 692 135
52 251	-
<b>2 897 744</b>	<b>13 701 939</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

See note for reconciliation of grants from National/Provincial Government.



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 17. Loans

#### At amortised cost

#### INCA - Standard Bank

14 062 884

19 491 086

The municipality has entered into the following agreements with INCA:

1. The loan amount is R 4 400 000.00 for a period of 10 years with a redeemable date 31 December 2018, The applicable interest rate 9.4% per annum with an installment of R 34 4824.45 bi-annually

2. The loan amount is R 2 519 347.00 for a period of 15 years with a redeemable date 31 December 2021, The applicable interest rate 5% per annum with an installment of R 158 529.50 bi-annually

3. The loan amount is R 21 900 000.00 for a period of 15 years with a redeemable date 30 June 2022, The applicable interest rate 11.12% per annum with an installment of R 102 833.81 bi-annually

4. The loan amount is R 2 700 000.00 for a period of 15 years with a redeemable date 31 December 2022, The applicable interest rate 9.35% per annum with an installment of R 169 174.96 bi-annually

5. The loan amount is R 605 100.00 for a period of 10 years with a redeemable date 31 December 2018, The applicable interest rate 9.4% per annum with an installment of R 47 311.41 bi-annually

6. The loan amount is R 4 802 852.00 for a period of 15 years with a redeemable date 31 December 2024, The applicable interest rate 9.35% per annum with an installment of R 300 808.00 bi-annually

#### Development Bank of South Africa

47 136 573

65 897 265

The municipality has entered into the following agreements with DBSA:

1. The loan amount is R 82 547 000.00 for a period of 15 years with a redeemable date 30 June 2023, The applicable interest rate 9.28% per annum with an installment of R 5 154 352.23 bi-annually

2. The loan amount is R 2 350 123.00 for a period of 15 years with a redeemable date 30 June 2023, The applicable interest rate 5% per annum with an installment of R 112 314.77 bi-annually

3. The loan amount is R 13 100 000.00 for a period of 20 years with a redeemable date 30 June 2019, The applicable interest rate 9.38% per annum with an installment of R 1 02 193.66 bi-annually

4. The loan amount is R 2 582 560.00 for a period of 10 years with a redeemable date 30 June 2018, The applicable interest rate 5% per annum with an installment of R 165 707.18 bi-annually

5. The loan amount is R 6 700 000.00 for a period of 15 years with a redeemable date 30 June 2018, The applicable interest rate 9.34% per annum with an installment of R 419 901.02 bi-annually

6. The loan amount is R 15 019 633.00 for a period of 20 years with a redeemable date 30 June 2019, The applicable interest rate 12.05% per annum with an installment of R 1 092 861.67 bi-annually

#### Nedbank

23 815 309

28 578 373

The municipality has entered into the following agreements with Nedbank:

1. The loan amount is R 71 445 948.00 for a period of 15 years with a redeemable date 30 June 2023, The applicable interest rate 11.39% per annum with an installment of R 4 668 261.00 bi-annually



## Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>17. Loans (continued)</b>		
	<b>85 014 766</b>	<b>113 966 724</b>
<b>Total other financial liabilities</b>	<b>85 014 766</b>	<b>113 966 724</b>
<b>Non-current liabilities</b>		
At amortised cost	62 430 764	85 490 668
<b>Current liabilities</b>		
At amortised cost	22 584 002	28 476 056





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 18. Provisions

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Interest	Total
Land fill sites	9 661 698	139 385 049	13 115 617	162 162 364
Employee benefit cost	222 916 000	16 773 000	-	239 689 000
Provisions for staff leave	52 322 491	9 730 992	-	62 053 483
	<b>284 900 189</b>	<b>165 889 041</b>	<b>13 115 617</b>	<b>463 904 847</b>

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Land fill sites	8 793 755	867 943	-	9 661 698
Employee benefit cost	223 148 000	-	(232 000)	222 916 000
Provisions for Staff Leave	46 810 342	5 512 149	-	52 322 491
	<b>278 752 097</b>	<b>6 380 092</b>	<b>(232 000)</b>	<b>284 900 189</b>

Non-current liabilities	401 851 364	232 577 698
Current liabilities	62 053 483	52 322 491
	<b>463 904 847</b>	<b>284 900 189</b>

#### Provisions For Landfill sites

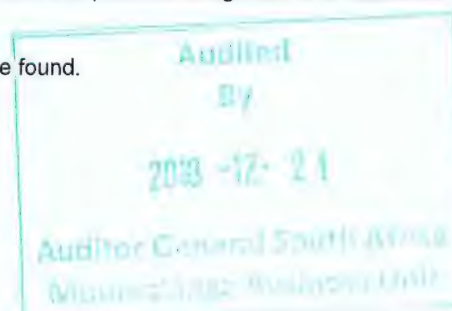
Provision for rehabilitation of landfill sites relates to the legal obligation to restore and rehabilitate the **Kriel, Leeuwpoot and Phola** landfill sites used for waste disposal. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

Risks that were taken into account and the estimated effect on the discounting rate :

1. The landfill site is fenced off.
2. There are no weight bridge and no records are kept of vehicles entering the site.
3. There is no control over waste types entering the site. This may lead that possible dangerous and hazardous material be dumped in the site that may lead to possible fines.
4. During our inspection of the site, no traces of medical waste were found.
5. The subject property is surrounded by farms.

Quantification of the risk factors:



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

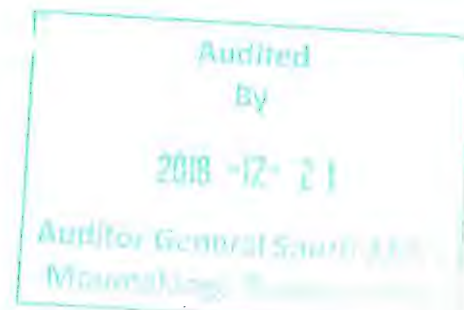
Figures in Rand

2018

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### 18. Provisions (continued)

1. The landfill site was fenced off.	- 0.1%
2. No records kept.	+ 0.35%
3. Waste types.	+ 0.50%
4. No medical waste.	- 0.45%
5. Surrounded by farms.	+ 0.25%



### Employee benefits Actuarial Method and assumptions

The valuation of the defined benefit obligation is performed at year end by an independent expert.

#### Objectives

Funding is the making of advance provision to meet the cost of accruing benefit promises. The funding objectives implicit in GRAP25/IAS 19 are to maintain a provision of 100% of the accrued service liability. The maintenance of such a provision gives employees a measure of security in respect of accrued benefit rights and also helps ensure that the employer does not maintain excessive resources within the provision made.

#### Method

The method of funding prescribed by GRAP 25 is called the "Projected Unit Method". Under this method the accrued service liabilities are determined by projecting all future payments which will be made by the employer in respect of benefits accrued up to valuation date. Assumptions are made in respect of, inter-alia, medical scheme contribution increases, withdrawals, deaths and ill-health, early and normal retirements. These payment are discounted at the valuation rate of discount to determine the present value of the liabilities at the valuation date.

The assumptions used in the calculations as discussed above are set out below.

#### Pace of funding

It is important to note that the assumptions do not affect the actual cost of the benefit paid, only the pace at which those costs are provided for in the accounts of the Emalahleni Local Municipality.

An exercise of this nature should be completed every 2 to 3 years in order to monitor progress and ensure the strategy adopted is still appropriate.

#### Death-in-service Benefits

On death-in-service the surviving spouse and dependants are also entitled to the subsidy of 60% of their medical aid contributions. The liability incurred for death is also valued using the projected unit credit method.

#### Key Assumptions

	2018	2017
Health care cost inflation	7.08%	7.48%
Discount rate	9.28%	9.61%
Real discount rate	2.05%	1.98%
Spouse age difference	4 years	4 years
Continuation at retirement	100%	100%
Retirement age	65 years	65 years



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 18. Provisions (continued)

Mortality of in-service members	SA 85-90 (light) Ultimate	SA 85-90 (light) Ultimate
Pensioners mortality tables	PA (90) - 2 Ultimate	PA (90) - 2 Ultimate

The assumed annual rate of discount used to calculate the present value of the liability was 9.28% per annum. This is consistent with yields on long term government bonds with the longest duration R209 as at 27 July 2018.

The employer's liabilities can be summarized as follows:

### 1. Accrued liability

	Early and Normal Retirement	Death Benefit	Total Accrued Liability
Current valuation as at 30 June 2018	R'000	R'000	R'000
Active members	149,829	36,427	186,257
Continuation members	53,432	0	53,432
Total	203,262	36,427	239,689

### 2. Future Service cost

This represents the annual cost that needs to be funded to accrue for the additional liability that will be incurred as a result of people's service over the next year.

1 year cost	01/07/2017 - 30/06/2018 R'000	01/07/2018 - 30/06/2019 R'000
Active members	15,637	18,880
Cost as a % of the Salary of members on a medical scheme	4.72%	5.22%

### 3. Interest Cost

The expected interest cost accruing in the year following the valuation date is calculated as:

1 year cost	01/07/2017 - 30/06/2018 R'000	01/07/2018 - 30/06/2019 R'000
Active members	15,637	18,880
Cost as a % of the Salary of members on a medical scheme	4.72%	5.22%



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>19. Payables from exchange transactions</b>		
Trade payables	2 941 962 473	2 101 306 145
Payments received in advanced	49 535 384	53 800 662
Other creditors	28 754 042	232 463 517
Retentions	46 320 202	37 111 344
Market Agency	504 376	200 369
Deposits : Other	16 282 384	1 222 537
	<b>3 083 358 861</b>	<b>2 426 104 574</b>
<b>20. Consumer deposits</b>		
Water and electricity	118 855 247	120 630 167
Housing rental	2 507 683	-
	<b>121 362 930</b>	<b>120 630 167</b>
<b>21. Revenue</b>		
Service charges	1 520 262 984	1 430 771 772
Rental of facilities and equipment	10 050 229	12 219 669
Licences and permits	2 419 142	2 784 274
Commissions received	32 888 562	31 546 198
Fair value adjustments	-	275 675
Actuarial gains	-	232 000
Other income	28 200 019	21 716 024
Fees earned	651 978	827 587
Interest revenue	226 564 194	130 052 695
Dividends received	42 919	126 926
Property rates	458 423 084	391 919 607
Government grants & subsidies	473 783 200	397 467 251
Public contributions and donations	11 488 253	26 911 000
Fines	20 200 058	23 763 729
Actuarial gains	16 021 000	-
	<b>2 800 995 622</b>	<b>2 470 614 407</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	1 520 262 984	1 430 771 772
Rental of facilities and equipment	10 050 229	12 219 669
Licences and permits	2 419 142	2 784 274
Commissions received	32 888 562	31 546 198
Other income	28 200 019	21 716 024
Fees earned	651 978	827 587
Interest revenue	226 564 194	130 052 695
Dividends received	42 919	126 926
	<b>1 821 080 027</b>	<b>1 630 045 145</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	458 423 084	391 919 607
<b>Transfer revenue</b>		
Government grants & subsidies	473 783 200	397 467 251
Public contributions and donations	11 488 253	26 911 000
Fines	20 200 058	23 763 729
	<b>963 894 595</b>	<b>840 061 587</b>



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>22. Service charges</b>		
Sale of electricity	825 596 287	853 357 610
Sale of water	419 538 358	347 171 265
Sewerage and sanitation charges	174 488 545	134 112 905
Refuse removal	100 639 794	96 129 992
	<b>1 520 262 984</b>	<b>1 430 771 772</b>
<b>23. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	7 841 253	3 990 926
Theatre hire	170 838	73 338
Venue hire	849 538	48 939
Rental of furniture	13 962	9 848
	<b>8 875 591</b>	<b>4 123 051</b>
<b>Garages and parking</b>		
Rental of hangars	512	212 373
<b>Facilities and equipment</b>		
Rental of equipment	1 174 126	7 884 245
	<b>10 050 229</b>	<b>12 219 669</b>
<b>24. Lease rentals on operating lease</b>		
<b>Premises</b>		
Contractual amounts	-	129 186
<b>Motor vehicles</b>		
Contractual amounts	737 721	1 115 844
<b>Equipment</b>		
Contractual amounts	1 778 488	344 664
<b>Plant and equipment</b>		
Contractual amounts	518 486	26 725
<b>Lease rentals on operating lease - Other</b>		
Contractual amounts	18 397 621	9 869 140
	<b>21 432 316</b>	<b>11 485 559</b>
<b>25. Licences and permits</b>		
Drivers licenses - Produba	2 108 931	2 437 435
Flammable liquid licenses	143 849	150 446
Hawkers association	123 063	181 754
Porters permits	1 946	1 956
Trade licenses	41 353	12 683
	<b>2 419 142</b>	<b>2 784 274</b>
<b>26. Commission received</b>		
Collection commission	-	119 191
Commissions - Market	2 763 527	2 835 964
Fees - Prov : Monies	30 125 036	28 591 043
	<b>32 888 563</b>	<b>31 546 198</b>



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>27. Sundry income</b>		
Tender documents	441 746	245 056
Building line relaxation	3 054 970	303 819
SETA Claims	1 078 794	1 497 289
Sale of stands	-	15 925 965
Unclaimed deposits	16 893 962	2 160 085
Incidental income	6 730 546	1 583 810
	<b>28 200 018</b>	<b>21 716 024</b>
<b>28. Fees earned</b>		
Information	635 616	38 012
Handling defaulters	-	769 481
Library books	9 897	9 581
Parking	6 465	10 513
	<b>651 978</b>	<b>827 587</b>
<b>29. Investment revenue</b>		
<b>Dividend revenue</b>		
Listed financial assets - Local	42 919	126 926
<b>Interest revenue</b>		
Interest charged on arrear accounts	226 564 194	130 052 695
	<b>226 607 113</b>	<b>130 179 621</b>
<b>30. Property rates</b>		
<b>Rates received</b>		
Property rates	458 423 084	391 919 607
<b>Valuations</b>		
Residential	34 597 413 943	34 663 712 960
Commercial	9 860 027 400	9 614 957 400
State	1 012 312 800	1 012 312 800
Municipal	2 609 570 560	2 340 509 400
Other (Agriculture, Mining, etc)	6 099 517 140	6 617 660 500
	<b>54 178 841 843</b>	<b>54 249 153 060</b>
<b>31. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Grants and subsidies paid to the indigent	21 153 962	10 760 426





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 32. Government grants and subsidies

#### Operating grants

Equitable share	288 802 000	256 437 000
Municipal Infrastructure Grant	110 815 000	68 328 000
National Treasury (Fin.Man.Grant)	2 145 000	1 810 000
Grant - Expanded Public Works Programme	1 717 000	2 891 000
Grant - Department of Energy	50 000 000	31 386 274
Grant - Human Settlement	10 856 446	26 556 010
Grant - Capital Neighbourhood development grant	9 447 754	10 058 967
	<b>473 783 200</b>	<b>397 467 251</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents are entitled to receive a monthly subsidy of 2018 R 208 VAT inclusive - (2017: R 240), which is funded from the grant.

#### Extended Public Works Programme Incentive

Current-year receipts	1 717 000	2 891 000
Conditions met - transferred to revenue	(1 717 000)	(2 891 000)
	-	-

This grant was used to improve service delivery in municipalities as part of the upgrading of informal and formal settlements. Included in the roads, sewerage, water, and fencing votes.

#### MIG Grant

Current-year receipts	110 815 000	68 328 000
Conditions met - transferred to revenue	(110 815 000)	(68 328 000)
	-	-

This grant was used to construct roads, sewerage and water infrastructure, as part of the upgrading of informal and formal settlement areas.

#### FMG Grant

Current-year receipts	2 145 000	1 810 000
Conditions met - transferred to revenue	(2 145 000)	(1 810 000)
	-	-

This grant was used to fund expenditure to enhance National Treasury Budget Reform program.

#### DOE Grant

Balance unspent at beginning of year	-	(1 923 228)
Prior year income not recognised	-	(13 890 498)
Current - year receipts	50 000 000	47 200 000
Conditions met - transferred to revenue	(50 000 000)	(31 386 274)
	-	-

This grant was used to install services to new settlements

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 32. Government grants and subsidies (continued)

#### Human Settlement Grant

Balance unspent at beginning of year	13 692 135	18 248 145
Current-year receipts	-	22 000 000
Conditions met - transferred to revenue	(10 856 446)	(26 556 010)
	<b>2 835 689</b>	<b>13 692 135</b>

This grant was used to supply water to rural areas , as well as sewer services to informal settlements.

#### Neighbourhood Development Partnership Grant

Balance unspent at beginning of year	-	3 158 967
Current-year receipts	9 500 000	10 058 967
Conditions met - transferred to revenue	-	(3 158 967)
Other	(9 447 749)	(10 058 967)
	<b>52 251</b>	<b>-</b>

This grant was used to improve service delivery in municipalities as part of the upgrading of informal and formal settlements. Included in the roads , sewerage , water and fencing votes

#### Municipal revenue enhancement

Balance unspent at beginning of year	9 804	9 804
--------------------------------------	-------	-------

This grant was used for revenue enhancement.

### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2005), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

### 33. Public contributions and donations

Anglo American	-	10 634 559
Nkangala District Municipality	11 410 483	3 551 317
Exxaro	-	12 325 124
Xtrata coal	-	400 000
Palesa Coal mining	32 802	-
Westcoal Mining	44 968	-
	<b>11 488 253</b>	<b>26 911 000</b>





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

	2018	2017
<b>34. Employee related costs</b>		
Basic	476 519 793	462 685 333
Bonus	32 097 946	28 790 437
Medical aid - company contributions	47 476 223	47 826 927
UIF	2 781 660	2 702 864
Leave pay provision charge	9 730 991	11 106 111
Other short term benefits	50 961 503	1 210 000
Pension fund contributions	91 147 993	81 604 750
Overtime payments	62 859 296	51 255 958
Housing benefits and allowances	3 833 533	3 554 471
Contributions - Group insurance	1 418 089	1 206 008
Current Service costs	21 422 000	-
	<b>800 249 027</b>	<b>691 942 859</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	1 439 893	1 241 182
Car Allowance	764 248	798 740
Contributions to UIF, Medical and Pension Funds	104 978	1 785
	<b>2 309 119</b>	<b>2 041 707</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	962 733	945 364
Car Allowance	659 220	674 424
Contributions to UIF, Medical and Pension Funds	321 978	287 858
	<b>1 943 931</b>	<b>1 907 646</b>
<b>Remuneration of executive directors - Community services</b>		
Annual Remuneration	956 432	785 310
Car Allowance	647 790	643 320
Contributions to UIF, Medical and Pension Funds	349 550	314 690
Other	6 300	1 716
	<b>1 960 072</b>	<b>1 745 036</b>
<b>Remuneration of executive director - Corporate services</b>		
Annual Remuneration	1 128 230	891 018
Car Allowance	647 790	643 320
Contributions to UIF, Medical and Pension Funds	247 404	208 982
	<b>2 023 424</b>	<b>1 743 320</b>
<b>Remuneration of executive director - Environmental services</b>		
Annual Remuneration	1 126 218	914 227
Car Allowance	662 781	658 440
Contributions to UIF, Medical and Pension Funds	179 764	118 892
Other	7 845	11 690
	<b>1 976 608</b>	<b>1 703 249</b>
<b>Remuneration of executive director - Infrastructure services</b>		
Annual Remuneration	412 861	786 325

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>34. Employee related costs (continued)</b>		
Car Allowance	511 825	473 484
Contributions to UIF, Medical and Pension Funds	86 413	170 639
Other	150 612	12 174
	<b>1 161 711</b>	<b>1 442 622</b>
<b>Remuneration of executive director - Infrastructure services : acting</b>		
Annual Remuneration	299 028	-
Car Allowance	252 008	-
Contributions to UIF, Medical and Pension Funds	84 251	-
Other	26 424	-
	<b>661 711</b>	<b>-</b>
<b>Remuneration of executive director - Development planning</b>		
Annual Remuneration	474 103	815 675
Car Allowance	386 502	671 040
Contributions to UIF, Medical and Pension Funds	150 063	254 325
Other	176 692	32 135
	<b>1 187 360</b>	<b>1 773 175</b>
<b>Remuneration of executive director - Development planning : acting</b>		
Annual Remuneration	202 336	-
Car Allowance	218 430	-
Contributions to UIF, Medical and Pension Funds	60 878	-
Other	62 778	-
	<b>544 422</b>	<b>-</b>
<b>35. Remuneration of councillors</b>		
Mayoral Committee Members	4 276 885	4 532 598
Councillors	16 650 740	18 364 717
Councillors' pension contribution	5 997 376	2 429 766
	<b>26 925 001</b>	<b>25 327 081</b>
<b>36. Depreciation and amortisation</b>		
Property, plant and equipment	276 465 496	279 181 213
Investment property	1 749 195	141 416
Intangible assets	1 377 175	886 532
	<b>279 591 866</b>	<b>280 209 161</b>
<b>37. Impairment loss</b>		
<b>Impairments</b>		
Property, plant and equipment	17 064 961	10 920 360





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 38. Finance costs

Eskom account	106 277 346	78 147 031
Finance leases	390 027	343 033
Long term liabilities	10 072 329	17 523 506
Landfill sites	13 115 617	867 944
	<b>129 855 319</b>	<b>96 881 514</b>

### 39. Debt impairment

Bad debts	531 787 567	91 144 184
-----------	-------------	------------

The Calculation for bad debt provision will be based on a payment ratio per debtor i.e total amounts paid in a year over or divided by a total bill in a year.

a)  $P = (1 - P_d)$  where P is the provision for bad debt

b)  $P_d = \text{bad debt provision} \text{Pmt/L} \times 100$

Pmt equals to Total Payments in the financial year

L equals to Total Levies in a financial year

Special consideration to be given to debtors with payment arrangements with regard to the risk of non-payment.

### 40. Bulk purchases

Electricity	883 689 462	876 971 887
Water	34 057 878	23 561 885
	<b>917 747 340</b>	<b>900 533 772</b>

### Electricity sales

	Total purchases	Total sales	Units unaccounted for	Losses in Rand value	% of distribution losses
2018	975 818 971	627 357 722	348 461 249	317 099 737	35,71 %
2017	965 132 686	551 153 703	413 978 983	353 239 134	42,89 %
	<b>1 940 951 657</b>	<b>1 178 511 425</b>	<b>762 440 232</b>	<b>670 338 871</b>	<b>78,60 %</b>

### Water Sales

	Total purchases	Total sales	Units unaccounted for	Losses in Rand Value	% of distribution losses
2018	40 920 719	24 346 177	16 564 892	136 660 359	40,49 %
2017	41 825 981	23 415 002	18 406 579	151 854 277	44,01 %
	<b>82 746 700</b>	<b>47 761 179</b>	<b>34 971 471</b>	<b>288 514 636</b>	<b>84,50 %</b>

### 41. Contracted services

#### Outsourced Services

Animal Care	17 333	14 987
Burial Services	46 990	51 430
Catering Services	418 345	194 947
Cleaning Services	151 382	65 291
Fire Services	50 310	-
Meter Management	10 131 341	5 381 907
Security Services	19 549 172	17 181 990
Water Takers	1 683	1 413 060



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>41. Contracted services (continued)</b>		
<b>Consultants and Professional Services</b>		
Business and Advisory	9 722 302	30 725 093
Infrastructure and Planning	256 142	877 193
Laboratory Services	4 744 945	9 970 312
Legal Cost	18 976 533	20 180 591
<b>Contractors</b>		
Audio-visual Services	55 944	41 157
Building	6 135	27 704
Electrical	7 860 100	3 644 691
Employee Wellness	442 245	280 322
Event Promoters	65 611	1 754
Fire Protection	-	50 398
Fire Services	-	37 415
Gardening Services	64 855	58 025
Inspection Fees	2 108 787	1 021 435
Maintenance of Buildings and Facilities	2 442 369	3 666 485
Maintenance of Equipment	14 864 075	3 136 282
Maintenance of Unspecified Assets	136 842 226	107 881 532
Medical Services	3 266	5 964
Preservation and restoration	43 265	-
Tracing Agents and Debt Collectors	-	680 688
Sewerage Services	6 180 918	4 607 654
	<b>235 046 274</b>	<b>211 198 307</b>
<b>42. General expenses</b>		
Advertising	734 893	717 272
Assessment rates & municipal charges	520 380	1 612 635
Auditors remuneration	6 940 121	8 087 764
Bank charges	9 387 775	7 904 956
Commission paid	156 895	6 779 685
Computer expenses	5 127 579	1 127 603
Entertainment	986 573	1 166 201
Insurance	15 466 082	12 058 443
Levies	6 457 809	5 727 803
Motor vehicle expenses	2 725 760	1 983 955
Fuel and oil	7 377 733	12 764 358
Postage and courier	1 337 634	3 058 043
Printing and stationery	1 965 222	2 257 779
Protective clothing	3 005 206	2 753 456
Royalties and license fees	3 424 958	499 965
Subscriptions and membership fees	8 751 721	6 742 463
Telephone and fax	13 133 523	9 221 082
Transport and freight	18 100 796	21 131 172
Training	2 296 152	4 000 152
Travel - local	1 325 594	2 245 650
Refuse	-	14 831
Other expenses	18 088 899	4 338 846
Material and provisions	32 588 164	29 304 050
Management : landfill sites	-	3 796 702
Workmens compensation	-	1 119 970
Stipends	55 458	2 079 000
Impairment of traffic fines	15 952 959	10 774 454
	<b>175 907 886</b>	<b>163 268 290</b>





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

	2018	2017
<b>43. Actuarial gains or losses</b>		
Actuarial gain	16 021 000	232 000
<b>44. Fair value adjustments</b>		
Game Animals	(322 897)	275 675
Investment	(142 344)	-
	<b>(465 241)</b>	<b>275 675</b>
<b>45. Auditors' remuneration</b>		
Fees	6 940 121	8 087 764
<b>46. Operating deficit</b>		
Operating deficit for the year is stated after accounting for the following:		
<b>Operating lease charges</b>		
Premises		
• Contractual amounts	-	129 186
Motor vehicles		
• Contractual amounts	737 721	1 115 844
Equipment		
• Contractual amounts	1 778 488	344 664
Plant and equipment		
• Contractual amounts	518 486	26 725
Nu Water		
• Contractual amounts	18 397 621	9 869 140
	<b>21 432 316</b>	<b>11 485 559</b>
Loss on sale of property, plant and equipment	(30 381 730)	-
Impairment on property, plant and equipment	17 064 961	10 920 360
Amortisation on intangible assets	1 377 175	886 532
Depreciation on property, plant and equipment	276 465 496	279 181 213
Depreciation on investment property	1 749 195	141 416
Employee costs	827 174 028	717 269 940
<b>47. Commitments</b>		
<b>Capital commitments</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	129 718 177	185 935 501
<b>Operational commitments</b>		
<b>Already contracted for but not provided for</b>		
• The municipality has entered into agreements with service providers for the provision of various services. At reporting date the municipality has outstanding operational commitments	111 505 412	108 899 841



# Emalahleni Local Municipality

## Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

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#### 48. Contingencies

Forthwith is a list of possible liability claims where the outcome was unknown at 30 June 2017:

Legal claims against the municipality	Claim amount	Cause of action	Status of the outcome of the dispute
Chris Vrey and Ejanette Vrey	160 958	Claim for damages as a result of the plaintiff colliding with another vehicle which made an emergency stop due to a pothole	The matter is being defended and still pending
Coetzee L.C	1 050 000	Claim for damages as a result of failure by the municipality to construct and maintain roads, provide and display speed limit signs on all roads manage and operate all roads in a manner commensurate with their design and take appropriate steps to remove alternatively limit danger if a road is an urban design and / or barrier kerb is used . plaintiff collided with another vehicle as a result had to have right arm amputated.	The matter is being defended and still pending
Dark Fibre Africa (Pty) Ltd	218 256	Claim for damages as a result of the plaintiff's cable being damaged due to alleged negligence of the defendant's employees	The matter is being defended and still pending
Debbie Sutherland	920 000	Claim for damages as a result of plaintiff being injured when the vehicle she was travelling in hit a pothole	The matter is being defended and still pending
Guilliam Drik Van Niekerk	200 000	Claim for damages in respect of infringement of rights to liberty , freedom, integrity , dignity and privacy by way of unlawful arrests and detention	The matter is being defended and still pending
Ntswaki Annah Zondo	500 000	Claim for damages as a result of acts of defamation	The matter is being defended and still pending
Merc Carriers CC	496 827	Claim for damages as a result of the plaintiff's vehicle being driven into an unmarked and un-lit trench on a road allegedly within the jurisdiction of the municipality	The matter is being defended and still pending



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 48. Contingencies (continued)

Nelisa Sannah Sgudla Obo Sbusiso Zelibani Nkosi

Nomqibelo Annah Ntuli	2 500 000	Claim for damages Claim for damages as a result of a minor child playing at or near a substation wherein the minor child came into contact with high-voltage electricity and sustained severe electrical shock resulting in severe facial and bodily burns. Claim for damages as a result of the plaintiff being injured when she fell into an uncovered drain	The matter is being defended and still pending
Precious Thandiwe Makwakwa Obo Nthabiseng Pascaline Matsebe	1 878 356	Claim for damages as a result of a minor child playing at or near a substation wherein the minor child came into contact with high-voltage electricity an sustained severe electrical shock resulting in severe facial and bodily burns. Claim for outstanding payments as a result of goods supplied and delivered	The matter is being defended and still pending
Relay Setting (Pty) Ltd	2 500 000	Claim for damages as a result of Municipal employees when they were laying a water pipe	The matter is being defended and still pending
Sasol Gas	6 007 481	Claim for loss of support	The matter is being defended and still pending
Senzi Martha Motsepe	3 334 111	Claim for payment of for the amount of R 9 222 069,56 for electricity consumption wrongly debited to the plaintiff as a result of a faulty electrical meter in respect of certain ervens owned by the plaintiff and / or its predecessor	The matter is being defended and still pending
Soundprops	702 000	Claim for damages incurred as a result of the plaintiff driving over an unmarked island	The matter is being defended and still pending
Tiva Clement	9 222 070	Claim for damages incurred allegedly to the plaintiff's property as a result of the alleged unlawful demolition of the plaintiff's property	The matter is being defended and still pending
Uwane Davies Mananyetjo (1st Plaintiff) Kganyane Georgina Mananyetjo (2nd Plaintiff)	40 208	Claim for damages due to water interruptions at the plaintiff's place of business	The matter is being defended and still pending
Witbank Abbatoir	147 685		
	135 707		



# Emalahleni Local Municipality

## Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

Figures in Rand

#### 48. Contingencies (continued)

Telkom	-	39 Beatty street damaged telkom line	The matter is still pending
HR Peterson	5 050 000	Pothole damage	The matter is still pending
CT Mbethe	15 999	Third party property damaged due to pipe burst	The matter is still pending
ES Chirwa	11 200	Third party property damaged due to pipe burst	The matter is still pending
ES Mahlangu	5 500	Third party property damaged due to pipe burst	The matter is still pending
KM & ME Mbekeni	38 881	Municipality disconnected electricity erroneously	The matter is still pending
DE de Lange	20 196	Third party pothole damage	The matter is still pending
MR M Buster	13 128	Damage due to speed hump not being marked	The matter is still pending
K Kgole	7 262	Grass cutter damage windscreen	The matter is still pending
Telkom	67 880	Cable damage	The matter is still pending
	<b>35 243 705</b>		





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

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### 49. Related parties

There were no related party transactions identified during the course of the 2018 financial year other than those disclosed in note 32-34

### 50. Change in estimate

#### Property, plant and equipment

During the 2018 yearend financial year management has taken a decision to change the estimations for the provision for landfill sites from the mining rehabilitation methodology to the National environmental management methodology. The municipal management is of the view that fair presentation will be achieved by using a rate valuation methodology that better reflects the activities and the business they are engaged on.

### 51. Prior period adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

#### Inventories

During the 2017 financial year end management erroneously disclosed land which were still registered under the name of the municipality which is the legal form, however in terms of the substance over form it does no longer belong to the municipality as the rights were given to beneficiaries. The impact on the statement of financial position and performance is depicted below.

#### Consumer debtors

During the 2017 financial year Consumer debtors balance of R 731 817 853 was overstated with an amount of R 20 668 983 this was due to debtors that were written off but removed from the debtors balance.

#### Debt impairment

During the 2017 financial year end the debt impairment balance was understated by the amount of R 20 668 983, this is due to the debtors balance written off and not included in the amount.

#### Investment property

During the 2017 financial year investment property balance of R 1074 834 422 was understated with an amount of R 3 118 124 this was due to property, plant and equipment - buildings erroneously disclosed as investment property

#### Property, plant and equipment

During the 2017 financial year property, plant and equipment balance of R 5 582 835 246 was overstated with an amount of R 10 353 324 which was due to new assets identified during verification and duplicate assets removed from the assets register.

### Statement of financial position

2017

	Note	As previously reported	Correction of error	Restated
Inventories	9	41 279 890	(17 572 500)	23 707 390
Consumer debtors	13	731 817 853	(20 668 983)	711 148 870
Property, plant and equipment	5	5 582 835 246	(10 353 324)	5 572 481 922
Investment property	4	1 074 834 422	4 929 221	1 079 763 643
Receivable from non- exchange transactions	11	48 917 443	(25 100 089)	23 817 354
		<b>7 479 684 854</b>	<b>(68 765 675)</b>	<b>7 410 919 179</b>

# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 51. Prior period adjustments (continued)

#### Statement of financial performance

##### 2017

	Note	As previously reported	Correction of error	Restated
Debt impairment	39	455 592 437	20 668 983	476 261 420
Depreciation	36	278 587 287	1 621 874	280 209 161
<b>Surplus for the year</b>		<b>734 179 724</b>	<b>22 290 857</b>	<b>756 470 581</b>

#### Change in accounting estimate

During the current financial years managements changed its credit control policy which affected the accounting treatment on provision for bad debts. Through assessments and investigations it was determined that the municipality's credit control policy that was previously applied by management on the accounting for bad debts did not cater for changes in the market and did not reflect the consumers participations in the market which in fact determined the recoverability of municipal services consumed. the impact of the changes are as follows

Statement of financial position	As previously reported	Change in accounting estimate	Error	Restated balance
Receivable from exchange transactions	731 817 853	872 129 427	(20 668 983)	1 583 278 297
Subtotal	731 817 853	872 129 427	(20 668 983)	1 583 278 297
	<b>731 817 853</b>	<b>872 129 427</b>	<b>(20 668 983)</b>	<b>1 583 278 297</b>

Statement of financial performance	As previously reported	Change in accounting estimate	Error	Restated balance
Debt impairment	455 592 437	(385 117 236)	20 668 983	91 144 184
Subtotal	455 592 437	(385 117 236)	20 668 983	91 144 184
	<b>455 592 437</b>	<b>(385 117 236)</b>	<b>20 668 983</b>	<b>91 144 184</b>

- The tables below depicts the cumulative impact of the changes in the accounting policies to the earliest prior period presented as required by the standard of GRAP.

Statement of financial position	2014/2015	2015/16	Total Increase/(decrease)
Provisions for bad debts	18 756 918	468 255 273	487 012 191

Statement of financial performance	2016/17	Total increase/(decrease)
Debt impairment	385 117 236	385 117 236







# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 51. Prior period adjustments (continued)

#### Reclassifications

In order to achieve fair presentation and comply with the qualitative characteristics of financial statements as required by GRAP the following accounts have been renamed in order to ensure that the financial statements are understandable to the users.

<u>Old</u>	<u>New</u>
Loans and Receivables	- Loans

#### Sundry Income-fair Value

During the 2017/2018 year end management decided that in order to achieve a fair presentation as prescribed by GRAP 1 and to provide users of financial statements with more information. The fair value adjustments on the Game Animals with value of R 275 675 be separately disclosed on the face of the the statement of financial performance.x

#### Operating Leases

During the 2017/2018 year end management decided that in order to achieve a fair presentation as prescribed by GRAP 1 and to provide users of financial statements with more information and also to display full compliance with MSCOA. The operating lease expense with value of R11 485 559 be separately disclosed on the face of the the statement of financial performance

#### Repairs and maintenance

During the 2016/17 financial year end management separately disclosed Repairs and maintenance on the face of the financial performance as required by GRAP 1, through further investigation and implementation of MSCOA it was determined that the repairs and maintenance contained items that are contracted services in nature which is not in line with GRAP 1 .85. Management therefore decided in order to meet fair presentation criteria as prescribed by GRAP 1 the Repairs and maintenance with the value of R 121 055 848 be reclassified.

#### General expenses

During the 2017/18 financial year end management reclassified general expenses of R 43 797 567 relating to the 2016/17 comparative year.through the implementation of MSCOA it was determined that the general expenses line item contained items with different nature, some included contracted services and other expenses.Management therefore decided in order to meet fair presentation criteria as prescribed by GRAP 1 and fully comply with MSCOA general expenses must reclassified the appropriate lie items

#### Contracted Services

During the 2018 year end management identified and classified into the Contracted services line item, expenditures with the value of R 153 367 855.00 the identifications of these expenses was due to the MSCOA implementation.

#### Employee related costs

During the 2017/18 financial year end management reclassified employee costs of R 232 000 relating to actuarial gain which was erroneously disclosed as employee costs.

#### Statement of financial performance - extract

	Comparative figures previously reported 2016/2017	Reclassification 2017/2018	After reclassification 2017/2018
Sundry income	21 991 699	(275 675)	21 716 024
Fair value adjustment	-	275 675	275 675
Actuarial gain	-	(232 000)	(232 000)
Repairs and maintenance	121 055 848	(121 055 847)	1
Employee related costs	691 710 859	232 000	691 942 859





# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 51. Prior period adjustments (continued)

	2018	2017
Contracted services	57 830 452	153 367 855
Operating lease	-	11 485 559
General expenses	207 065 857	(43 797 567)
	<b>1 099 654 715</b>	<b>1 099 654 715</b>

### 52. Risk management

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Consumer debtors comprise a widespread community base. The Municipality manages its credit risk through payment of deposits disconnection in the case of non-payment.

Financial assets exposed to credit risk at year end were as follows:

#### Financial instrument

Trade and other receivables

2018	2017
269 153 503	194 370 818

### 53. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had a current year deficit of R 386 612 868 and that the municipality's current liabilities exceed its current assets by R 1 217 388 049. This is mainly due to the municipality struggling to collect moneys owed to it by its consumers, leading to serious cash flow problems being experienced, hence difficulties in settling accounts in time.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. This is strengthened by the fact that the municipality, in terms of legislation, has the power to levy rates which guarantees continued generation of revenue. The municipality is implementing various initiatives to improve the current situation.

### 54. Unauthorised expenditure

Opening balance  
Unauthorised expenditure - current year  
Expenditure authorised during the year  
Unspent Grants not cash Backed

834 460 077	638 429 148
222 041 583	187 208 787
(196 074 069)	-
-	8 822 142
<b>860 427 591</b>	<b>834 460 077</b>

### 55. Fruitless and wasteful expenditure

Opening balance  
Claims  
Eskom interest  
SARS interest and penalties  
Interest accrued on late payment of suppliers

296 573 106	217 173 688
1 185 852	200 501
105 348 820	78 147 031
2 745 861	1 043 517
892 650	-
<b>406 746 289</b>	<b>296 564 737</b>

**Emalahleni Local Municipality**  
Annual Financial Statements for the year ended 30 June 2018

**Notes to the Annual Financial Statements**

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**56. Irregular expenditure**

Opening balance  
Add: Irregular Expenditure - current year

231 390 093	102 883 1.
92 216 981	128 506 97.
<b>323 607 074</b>	<b>231 390 093</b>

**57. Additional disclosure in terms of Municipal Finance Management Act**

**Contributions to organised local government**

Current year subscription / fee  
Amount paid - current year

8 037 680	6 419 882
(8 037 680)	(6 419 882)
-	-

**Audit fees**

Opening balance  
Current year subscription / fee  
Amount paid - current year  
Credit note

6 520 987	5 585 332
7 590 817	7 817 597
(8 432 064)	(6 881 942)
(5 431 363)	-
<b>248 377</b>	<b>6 520 987</b>

**PAYE and UIF**

Current year subscription / fee  
Amount paid - current year

131 315 799	97 483 309
(131 315 799)	(97 483 309)
-	-

**Pension and Medical Aid Deductions**

Current year subscription / fee  
Amount paid - current year

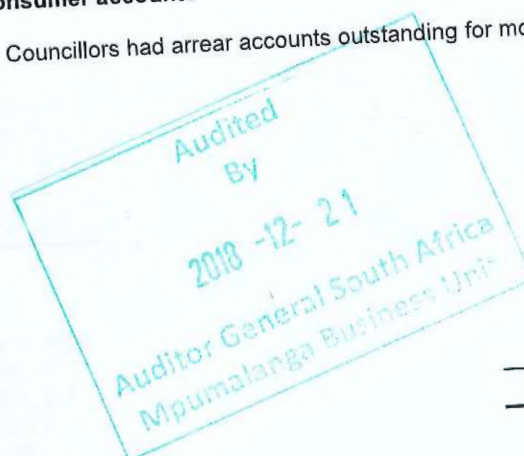
135 454 854	84 307 614
(135 454 854)	(84 307 614)
-	-

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018

CLLR D M Skhosana  
CLLR T T Mathebula  
CLLR N L Mofokeng  
CLLR M C Hilton  
CLLR P L Debeila  
CLLR P N Mazibuko  
CLLR V L Chembe



Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
4 006	-	4 006
6 449	-	6 449
295	-	295
1 546	-	1 546
587	-	587
5 778	-	5 778
203	-	203
<b>18 864</b>	<b>-</b>	<b>18 864</b>

**58. Budget differences**

**Material differences between budget and actual amounts**

The excess of actual expenditure over the final budget of 10% is detailed below.



# Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>58. Budget differences (continued)</b>		
Descriptions	%	Reasons
Service charges	-21%	Less revenue realised on service charges due to illegal connections on electricity and unmetered houses
Rental of facilities and equipment	-54%	Over budgeted during adjustment budget, due to revenue that was incorrectly included under rental of facilities instead of other income.
License and permits	1170%	Under budgeted as additional license fees were collected during the year
Commission received	191%	Under budgeted as additional license fees were collected during the year
Other income	73%	The under budgeting was due to additional income received from economic participations by the consumers
Interest received	30%	The debtor's book increased due to consumers that were not paying their accounts. There increase is more than it was initially anticipated
Dividends received	100%	there was no budget allocations due to unpredictability of the market movements
Public contributions and donations	71,90%	this is due the fact that most of the projects were not recognised as revenue as they are still work in progress
Fines, Penalties and forfeits	319%	Additional revenue realised due to I-GRAP.
Finance costs	57%	The finance cost has increased due to Eskom debt that has escalated more than initially anticipated
Lease rentals on operating lease	100%	Reclassification on mSCOA. It was budgeted for under general expenses
Debt Impairment	18%	The expenditure has not been processed as yet
Contracted services	12%	Under budgeted due to mSCOA reclassifications. Other line items were budgeted for under other expenditure.
Transfers and subsidies	43%	Indigent register was reduced due to verification which denied some of the consumer from being indigent

## Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

Figures in Rand

2018

2017

#### 58. Budget differences (continued)

General Expenses

35%

Over budgeted due to mSCOA reclassifications. Other line items budgeted under general expenditure should have been taken to contracted services.

#### Differences between budget and actual amounts basis of preparation and presentation

The budget and the accounting bases differ. The annual financial statements for the whole-of-government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The annual financial statements are consolidated statements that include all controlled entities, including government business enterprises for the fiscal period from to . The annual financial statements differ from the budget, which is approved on the cash basis and which deals only with the general government sector that excludes government business enterprises and certain other non-market government entities and activities.

Audited  
By  
2018-12-21  
Auditor General South Africa  
Mpumalanga Business Unit